

**AGENDA ITEM:** CLSA Interlibrary Loan, Universal Borrowing, Equal Access Programs

**ISSUE TO COME BEFORE THE BOARD AT THIS MEETING:** 2001/02 ILL and Direct Loan Program reimbursement rates.

**RECOMMENDED MOTION FOR CONSIDERATION BY THE BOARD:** I move that the Library of California Board adopt, subject to the concurrence of the State Department of Finance, reimbursement rates for the 2001/02 fiscal year as follows: for CLSA interlibrary loans, a reimbursement rate of \$3.87 per eligible transaction; for CLSA direct loans, a reimbursement rate of \$.73 per eligible transaction; and that the Chief Executive Officer inform all participants of the 2001/02 reimbursement rates as soon as Department of Finance concurrence is obtained.

**BACKGROUND:**

During the 1983/84 fiscal year, a major effort was undertaken to determine the actual handling costs incurred by participants in the provision of California Library Services Act (CLSA) loan services. This effort led to the adoption of reimbursement rates for the 1984/85 Interlibrary and Direct Loan Programs based on three elements:

- 1) The weighted average per item handling cost of a loan, based on annual survey results of a representative sample of participant libraries.
- 2) Reporting costs of a loan, estimated at 2% of the average per item handling cost.
- 3) Materials deterioration cost based on industry standard data.

In October of 1984 the State Board adopted a process for annually updating the data on which the reimbursement rates were based and for determining the rates in successive years. This process included the following procedures:

- 1) Obtaining updated salary and benefit data from all previously surveyed libraries and recalculation of those libraries' per item handling cost.
- 2) Surveying an additional two libraries for interlibrary loan and an additional two libraries for direct loan to provide fresh information upon which to base reimbursement calculations.
- 3) Dropping from the handling costs' database any libraries which had significantly altered their internal direct or interlibrary loan procedures, thus rendering their data invalid for purposes of the rate survey.

- 4) Updating industry standard data on materials deterioration costs.

These procedures have been completed for the 2001/02 fiscal year with the following results:

- 1) A complete description of the methodology employed and a summary of the 2000/01 updated data appears in Exhibit A.

After all adjustments and weighted factors were calculated, the handling cost per item for interlibrary loan transactions was \$3.48. This is the recommended base rate for interlibrary loan.

For the Direct Loan Program, the final costs are prorated between manual and automated circulation systems. As in previous years, the difference between the manual and automated circulation system samples is significant and weighting for this factor was performed based on information collected by the State Library which identifies the automated circulation systems on an annual basis. The following calculation using the above information was performed:

Percentage of Automated Circulation Systems -  $70\% \times .3190 = .2233$

Percentage of Manual Systems -  $30\% \times .5935 = .1781$

Weighted Average Base Rate = .4014

- 2) For both the ILL and Direct Loan rates, reporting costs are estimated at 2% of the base rate.
- 3) Calculation of physical deterioration of materials:

The data collection, analysis and publication schedule of Book Industry Trends, essential data used in the calculation of the cost of the physical deterioration of loaned materials, is not available in time to include prior calendar year data in the annual determination of the CLSA ILL and Direct Loan Programs reimbursement rates. Thus, the calculation shown below represents base data collected during the 1999 calendar year. Data for 2000 will not be available until mid-summer of 2001 and will be included in the determination of reimbursement rates for the 2002/03 fiscal year.

Estimated price of the average library purchase = \$24.84

(Source: *Book Industry Trends 2000* (including 1999), The Statistical Service Center)

Estimated additional cost of high-quality (library-grade) binding @ 30% = \$7.45

(Source: The Library Binding Institute)

Average number of circulations (with high-quality binding) before major repair or replacement = 100 (Source: University of California, Berkeley, Preservation Unit)

$$\$24.84 + \$7.45 = \$32.29$$

$$\$32.29 \div 100 = .3229$$

<u>Recommended 2001/02 CLSA Reimbursement Rates</u>				
Service	Base Rate	Reporting Costs @ 2%	Physical Deterioration	Recommended Rate
ILL	\$3.48	\$ .07	\$ .32	\$3.87
Direct Loan	\$ .40	\$ .01	\$ .32	\$ .73

Concurrence of the State Department of Finance

Education Code Section 18724(f) establishes in law that Transaction Based Reimbursement rates, as determined by the State Board, are subject to the approval of the State Department of Finance.

**GENERAL OVERALL PROGRAM UPDATES:**

CURRENT STATUS: CLSA reimbursed loan services continue throughout the state with 176 public libraries and 162 non-public libraries participating. Reimbursement rates for the 2000/01 fiscal year as adopted by the State Department of Finance are:

\$3.21 per eligible Interlibrary Loan

\$ .63 per net imbalance Direct Loan

The 2000/01 State Budget Act contains a provision requiring the pro rata payment of reimbursement claims in the eventuality that actual claims exceed the amount appropriated for support of the program. In August of 2000 the State Board considered alternatives for implementing this Budget Act provision and directed its Chief Executive Officer to withhold a portion (10%) of each payment throughout the fiscal year, paying in full all amounts due at the end of the year if sufficient funds remained within the appropriation, and equitably pro rating all remaining amounts due, if the appropriation proved insufficient to cover the full costs. A progress report on implementing this provision is included in Program Trends, below.

The 2001/02 Budget Bill, as introduced, includes a \$1,251,000 increase over the current year appropriation for the ILL and Direct Loan Programs to fund the increase in transactions and rates adopted by the Board in April 1999 based on actual data from the 1999/2000 fiscal year. If this

augmentation remains in the signed budget, proposed reimbursement rates for 2001/02 will increase to \$3.82 per eligible Interlibrary Loan and \$.73 per net imbalance Direct Loan. Work on the 2000/01 handling cost survey is complete and recommendations on the 2001/02 ILL and Direct Loan Program reimbursement rates are scheduled for Board action at this meeting.

**PROGRAM TRENDS:** Based on actual data and projected activity for ILL and Direct Loan transactions, yearly projections have been revised as follows:

<b>2000/01 LOAN ACTIVITY</b>					
	1 <sup>st</sup> Quarter <u>Actual</u>	2 <sup>nd</sup> Quarter <u>Actual</u>	3 <sup>rd</sup> Quarter <u>Projected</u>	4 <sup>th</sup> Quarter <u>Projected</u>	Revised 2000/01 Total <u>Projections</u>
ILL Reimbursable Transactions	263,341	253,202	271,729	271,728	1,060,000
Direct Loan Transactions	5,777,044	6,414,415	Actual 6,286,508	6,600,833	25,078,800
Direct Loan Net Imbalance Transactions	2,355,115	2,583,801	Actual 2,588,599	2,706,342	10,233,857

Based on actual claims thus far, projected totals for the fiscal year have been revised. ILL transactions are projected at 1,060,000 (down 10.7% from the 1999/2000 total), and actual net imbalance Direct Loans are at 10,233,857, (down about 1.8% from the 1999/2000 total).

**Pro Rata Projection:** The chart below displays the full cost reimbursement of the actual activity in the ILL and Direct Loan programs thus far, the amount actually paid to libraries, and the amount withheld.

<u>Status of Reimbursement Payments as of 3/15/2001</u>			
	Cost of Non-prorated <u>Reimbursement</u> <sup>1</sup>	Paid to <u>libraries</u> <sup>2</sup>	Amount <u>Withheld</u>
ILL	\$1,658,103	\$1,492,293	\$165,810
Direct Loan	\$4,742,334	\$4,268,101	\$474,233

<b>Total</b>	\$6,400,437	\$5,760,394	\$640,043
<sup>1</sup> At rates approved by the State Department of Finance			
<sup>2</sup> 10% withheld per August 2000 action of the Board			

Based on the actual transactions and revised projections for direct and interlibrary loan, the full cost of the 2000/01 ILL and Direct Loan Programs at Department of Finance approved rates are estimated at:

ILL	\$3,402,600
Direct Loan	\$6,447,330
Total	\$9,849,930

The 2000/01 CLSA appropriation for Interlibrary Loan and Direct Loan transactions is \$10,894,000, which is sufficient to pay all valid claims for reimbursement at 100% if actual transactions occur at the levels currently projected.

**TRANSITION PROCESS:** Staff requests guidance from the Library of California Board in preparing a plan for the transition of this program to the Library of California for Board consideration, including the timing of key events. The transition process has already begun with the establishment of the Library of California interlibrary loan pilot program, which is funding non-public library ILL compensation, including reimbursements for non-public library loans to public libraries that previously were paid out of CLSA funds. Also, the pilot program reimburses public libraries for loans to for-profit and governmental libraries; these transactions are not eligible under CLSA. Other transition benchmarks will include the establishment of a Library of California direct loan compensation program and the transfer of existing CLSA loan reimbursement funds to the Library of California budget. The Board also will adopt additional regulations, including handling cost reimbursement rates, although not necessarily before transition takes place, since basic regulations already have established. Technically, under current Library of California regulations, elements of the CLSA loan program can transition to the Library of California as programs are established and either CLSA funds have been transferred or adequate Library of California funding has been allocated, even if additional rulemaking has not been completed (although the Board would have to adopt the CLSA reimbursement formula as the interim Library of California formula until the results of the upcoming cost study have been incorporated into regulation).

For example, one potential scenario is that the Board could take action to authorize the transition of the non-public library element of the CLSA interlibrary loan program to the Library of California and establish an interlibrary loan program by changing the status of its current program from pilot to permanent. This program also would augment the current CLSA ILL program for public libraries, since it would include compensation for public library loans to for-profit and governmental

libraries. The Board also could propose a date for the transition of the remainder of the CLSA interlibrary loan program – the public library element – to the Library of California program, provided CLSA interlibrary loan funds have been transferred to the Library of California program budget.

**RELATED ISSUES TO COME BEFORE THE BOARD IN THE FUTURE:**

1. Actual Direct Loan and estimated ILL activity levels for 2000/01.
2. Consideration to seek additional 2002/03 local assistance funding through the Budget Change Proposal (BCP) process.

Relevant Committee: Access Services

Staff Liaison: Sandy Habbestad

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